

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Village of Fowler	County Clinton
Fiscal Year End 12/31/2007	Opinion Date 4/4/2008	Date Audit Report Submitted to State 6/3/2008	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

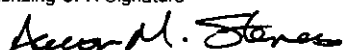
YES
NO

Check each applicable box below. (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☐ ☒ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)		
Financial Statements	<input checked="" type="checkbox"/>			
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>	N/A		
Certified Public Accountant (Firm Name) Abraham & Gaffney		Telephone Number (517) 351-6836		
Street Address 3511 Coolidge, Suite 100		City East Lansing	State MI	Zip 48823
Authorizing CPA Signature 		Printed Name Aaron M. Stevens, CPA		License Number 1101024055

**Village of Fowler
Clinton County, Michigan**

FINANCIAL STATEMENTS

December 31, 2007

Village of Fowler
Clinton County, Michigan

December 31, 2007

VILLAGE COUNCIL AND ADMINISTRATION

Vernon J. Thelen	President
David Klein	President Pro-Tem, Trustee
John Childers	Trustee
Richard Fink	Trustee
Richard Pline	Trustee
Christopher Thelen	Trustee
Roy Smith	Trustee
Rhonda Feldpausch	Clerk
John Rademacher	Treasurer

Village of Fowler
TABLE OF CONTENTS
December 31, 2007

	<u>PAGE</u>
INDEPENDENT AUDITOR'S REPORT	i
BASIC FINANCIAL STATEMENTS	
Government-wide Financial Statements	
Statement of Net Assets	1
Statement of Activities	2
Fund Financial Statements	
Governmental Funds Balance Sheet	3-4
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	5
Statement of Revenues, Expenditures, and Changes in Fund Balance - Governmental Funds	6-7
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	8
Statement of Net Assets - Proprietary Funds	9
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds	10
Statement of Cash Flows - Proprietary Funds	11-12
Notes to Financial Statements	13-23
REQUIRED SUPPLEMENTARY INFORMATION	
Budgetary Comparison Schedule - General Fund	24
Budgetary Comparison Schedule - Major Street Fund	25
Budgetary Comparison Schedule - Local Street Fund	26
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS	27-29

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

To the Honorable President and
Members of the Village Council
Village of Fowler, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Fowler, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Village of Fowler's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Fowler, Michigan as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 4, 2008, on our consideration of the Village of Fowler's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The budgetary comparison information, as identified in the table of contents, is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

The Village has not presented a management's discussion and analysis (MD&A), which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that the MD&A is necessary to supplement, although not required to be a part of the basic financial statements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 4, 2008

BASIC FINANCIAL STATEMENTS

Village of Fowler

STATEMENT OF NET ASSETS

December 31, 2007

	Primary Government		
	Governmental Activities	Business-type Activities	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 830,380	\$ 392,681	\$ 1,223,061
Investments	114,660	14,040	128,700
Receivables	1,453	53,728	55,181
Due from other governmental units			
State	10,808	19,072	29,880
Total current assets	957,301	479,521	1,436,822
Noncurrent assets			
Unamortized expense	-	20,978	20,978
Capital assets, not being depreciated	63,790	755,065	818,855
Capital assets, net of accumulated depreciation	251,288	749,288	1,000,576
Total noncurrent assets	315,078	1,525,331	1,840,409
TOTAL ASSETS	1,272,379	2,004,852	3,277,231
LIABILITIES			
Current			
Accounts payable	4,766	72,665	77,431
Accrued liabilities	4,857	-	4,857
Accrued interest payable	-	4,306	4,306
Current portion of long-term debt	-	60,000	60,000
Total current liabilities	9,623	136,971	146,594
Noncurrent			
Noncurrent portion of long-term debt	-	778,017	778,017
TOTAL LIABILITIES	9,623	914,988	924,611
NET ASSETS			
Invested in capital assets, net of related debt	315,078	666,336	981,414
Restricted for streets	225,533	-	225,533
Unrestricted	722,145	423,528	1,145,673
TOTAL NET ASSETS	\$ 1,262,756	\$ 1,089,864	\$ 2,352,620

See accompanying notes to financial statements.

Village of Fowler

STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		
					Governmental Activities	Business-type Activities	Total
Primary government:							
Governmental activities							
General government	\$ 142,701	\$ 23,571	\$ 13,327	\$ -	\$ (105,803)	\$ -	\$ (105,803)
Public safety	10,790	-	-	-	(10,790)	-	(10,790)
Public works	235,486	27,960	74,948	12,434	(120,144)	-	(120,144)
Health and welfare	2,985	-	-	-	(2,985)	-	(2,985)
Community and economic development	5,181	-	-	-	(5,181)	-	(5,181)
Recreation and cultural	7,324	-	300	-	(7,024)	-	(7,024)
Total governmental activities	404,467	51,531	88,575	12,434	(251,927)	-0-	(251,927)
Business-type activities:							
Sewer system	47,665	75,584	-	-	-	27,919	27,919
Water system	219,349	116,267	-	-	-	(103,082)	(103,082)
Total business-type activities	267,014	191,851	-0-	-0-	-0-	(75,163)	(75,163)
Total primary government	<u>\$ 671,481</u>	<u>\$ 243,382</u>	<u>\$ 88,575</u>	<u>\$ 12,434</u>	(251,927)	(75,163)	(327,090)
General revenues:							
Property taxes					259,340	-	259,340
State shared revenue					91,447	-	91,447
Investment earnings					28,841	8,986	37,827
Miscellaneous					407	36,660	37,067
Total general revenues					380,035	45,646	425,681
Change in net assets					128,108	(29,517)	98,591
Net assets, beginning of the year					1,134,648	1,119,381	2,254,029
Net assets, end of the year					<u>\$ 1,262,756</u>	<u>\$ 1,089,864</u>	<u>\$ 2,352,620</u>

See accompanying notes to financial statements.

Village of Fowler

GOVERNMENTAL FUNDS BALANCE SHEET

December 31, 2007

	General	Major Street	Local Street
ASSETS			
Cash and cash equivalents	\$ 491,816	\$ 124,570	\$ 90,155
Investments	114,660	-	-
Due from other governmental units			
State	-	7,146	3,662
Receivables			
Delinquent taxes	764	-	-
Interest	689	-	-
TOTAL ASSETS	\$ 607,929	\$ 131,716	\$ 93,817
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 4,766	\$ -	\$ -
Other accrued liabilities	4,857	-	-
TOTAL LIABILITIES	9,623	-0-	-0-
FUND BALANCE			
Unreserved			
Designated for subsequent year's expenditures	-	2,750	1,500
Undesignated	598,306	128,966	92,317
TOTAL FUND BALANCE	598,306	131,716	93,817
TOTAL LIABILITIES AND FUND BALANCE	\$ 607,929	\$ 131,716	\$ 93,817

See accompanying notes to financial statements.

Nonmajor Governmental Fund Storm Water	Total Governmental Funds
\$ 123,839	\$ 830,380
-	114,660
-	10,808
-	764
-	689
<u>\$ 123,839</u>	<u>\$ 957,301</u>
\$ -	\$ 4,766
-	4,857
<u>-0-</u>	<u>9,623</u>
-	4,250
<u>123,839</u>	<u>943,428</u>
<u>123,839</u>	<u>947,678</u>
<u>\$ 123,839</u>	<u>\$ 957,301</u>

Village of Fowler

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2007

Total fund balance - governmental funds \$ 947,678

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 550,522
Accumulated depreciation is	<u>(235,444)</u>

Capital assets, net	<u>315,078</u>
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Net assets of governmental activities	<u><u>\$ 1,262,756</u></u>
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See accompanying notes to financial statements.

Village of Fowler

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2007

	General	Major Street	Local Street
REVENUES			
Taxes	\$ 259,340	\$ -	\$ -
Intergovernmental	92,757	50,719	24,229
Charges for services	51,531	-	-
Interest and rents	19,471	3,770	2,280
Other	23,606	-	-
TOTAL REVENUES	446,705	54,489	26,509
EXPENDITURES			
Current			
General government	119,063	-	-
Public safety	10,690	-	-
Public works	198,464	5,229	42,617
Health and welfare	2,985	-	-
Community and economic development	5,181	-	-
Recreation and cultural	6,824	-	-
Capital outlay	13,991	-	-
TOTAL EXPENDITURES	357,198	5,229	42,617
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	89,507	49,260	(16,108)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	-	37,500
Transfers out	(50,000)	(12,500)	-
TOTAL OTHER FINANCING SOURCES (USES)	(50,000)	(12,500)	37,500
NET CHANGE IN FUND BALANCES	39,507	36,760	21,392
Fund balances, beginning of year	558,799	94,956	72,425
Fund balances, end of year	\$ 598,306	\$ 131,716	\$ 93,817

See accompanying notes to financial statements.

Nonmajor Governmental Fund Storm Sewer	Total Governmental Funds
\$ -	\$ 259,340
-	167,705
-	51,531
3,320	28,841
1,552	25,158
4,872	532,575
-	119,063
-	10,690
1,074	247,384
-	2,985
-	5,181
-	6,824
-	13,991
1,074	406,118
3,798	126,457
25,000	62,500
-	(62,500)
25,000	-0-
28,798	126,457
95,041	821,221
\$ 123,839	\$ 947,678

Village of Fowler

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2007

Net change in fund balances - total governmental funds \$ 126,457

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 33,882	
Depreciation expense	<u>(32,231)</u>	
Excess of capital outlay over depreciation expense		<u>1,651</u>

Change in net assets of governmental activities \$ 128,108

See accompanying notes to financial statements.

Village of Fowler

Proprietary Funds

STATEMENT OF NET ASSETS

December 31, 2007

	Business-type Activities		
	Sewer System	Water System	Total
ASSETS			
Current assets			
Cash and cash equivalents	\$ 201,812	\$ 190,869	\$ 392,681
Investments	14,040	-	14,040
Receivables			
Interest	-	310	310
Usage	20,777	29,666	50,443
Special assessment	-	2,975	2,975
Due from other governmental units	-	19,072	19,072
Total current assets	236,629	242,892	479,521
Noncurrent assets			
Unamortized expense	2,453	18,525	20,978
Capital assets, not being depreciated	31,043	724,022	755,065
Capital assets, net of accumulated depreciation	265,355	483,933	749,288
Total other assets	298,851	1,226,480	1,525,331
TOTAL ASSETS	535,480	1,469,372	2,004,852
LIABILITIES			
Current liabilities			
Accounts payable	359	72,306	72,665
Accrued interest payable	-	4,306	4,306
Current portion of long-term debt	-	60,000	60,000
Total current liabilities	359	136,612	136,971
Noncurrent liabilities			
Bonds payable	-	778,017	778,017
TOTAL LIABILITIES	359	914,629	914,988
NET ASSETS			
Invested in capital assets, net of related debt	296,398	369,938	666,336
Unrestricted	238,723	184,805	423,528
TOTAL NET ASSETS	\$ 535,121	\$ 554,743	\$ 1,089,864

See accompanying notes to financial statements.

Village of Fowler

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2007

	Business-type Activities		
	Sewer System	Water System	Total
OPERATING REVENUES			
Charges for services	\$ 75,584	\$ 116,267	\$ 191,851
Other	150	3,315	3,465
TOTAL OPERATING REVENUES	75,734	119,582	195,316
OPERATING EXPENSES			
Labor charges	14,735	30,223	44,958
Supplies	463	10,455	10,918
Contractual services	5,394	119,857	125,251
Utilities	2,914	6,930	9,844
Telephone	737	805	1,542
Equipment repair	-	1,477	1,477
Equipment rental	101	606	707
Insurance	970	1,299	2,269
Other	648	2,365	3,013
Amortization	175	975	1,150
Depreciation	21,131	35,195	56,326
TOTAL OPERATING EXPENSES	47,268	210,187	257,455
OPERATING INCOME (LOSS)	28,466	(90,605)	(62,139)
NONOPERATING REVENUES (EXPENSES)			
Reimbursements	-	33,195	33,195
Interest revenue	7,231	1,755	8,986
Interest expense	(397)	(9,162)	(9,559)
TOTAL NONOPERATING REVENUES (EXPENSES)	6,834	25,788	32,622
CHANGE IN NET ASSETS	35,300	(64,817)	(29,517)
Net assets, beginning of year	499,821	619,560	1,119,381
Net assets, end of year	\$ 535,121	\$ 554,743	\$ 1,089,864

See accompanying notes to financial statements.

Village of Fowler

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2007

	Business-type Activities		
	Sewer System	Water System	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 70,132	\$ 92,661	\$ 162,793
Cash paid to suppliers	(3,674)	(116,658)	(120,332)
Cash paid for labor charges	(14,735)	(30,223)	(44,958)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	51,723	(54,220)	(2,497)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Bond proceeds	-	758,017	758,017
Reimbursement income	-	33,195	33,195
Capital acquisitions	-	(637,700)	(637,700)
Interest expense	(397)	(5,667)	(6,064)
Payments of borrowing	(15,000)	(20,000)	(35,000)
NET CASH PROVIDED (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(15,397)	127,845	112,448
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchases of investments	(14,040)	-	(14,040)
Maturities of investments	13,500	55,858	69,358
Interest revenue	7,231	1,755	8,986
NET CASH PROVIDED BY INVESTING ACTIVITIES	6,691	57,613	64,304
NET INCREASE IN CASH AND CASH EQUIVALENTS DURING YEAR	43,017	131,238	174,255
Cash and cash equivalents, beginning of year	158,795	59,631	218,426
Cash and cash equivalents, end of year	\$ 201,812	\$ 190,869	\$ 392,681

Village of Fowler

Proprietary Funds

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2007

	Business-type Activities		
	Sewer System	Water System	Total
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ 28,466	\$ (90,605)	\$ (62,139)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	21,131	35,195	56,326
(Increase) in receivables	(5,602)	(7,849)	(13,451)
(Increase) in due from other governmental units	-	(19,072)	(19,072)
Decrease in due from other funds	8,000	-	8,000
(Increase) decrease in unamortized expense	174	(18,525)	(18,351)
Increase (decrease) in accounts payable	(446)	46,636	46,190
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	<u>\$ 51,723</u>	<u>\$ (54,220)</u>	<u>\$ (2,497)</u>

See accompanying notes to financial statements.

Village of Fowler

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Village of Fowler is located in Clinton County, Michigan and has a population of approximately 1,000. The Village of Fowler operates with a Village President/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The Village Council is made up of the Village President, Clerk, Treasurer, and six (6) trustees who are selected at large for overlapping four year terms.

The financial statements of the Village have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to Village governments. The Governmental Accounting Standards Board is the accepted standard setting body for establishing governmental accounting and financial reporting principles. The Village's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*; these financial statements present all financial activities of the Village of Fowler (primary government). The Village has no activities that would be classified as component units.

The inclusion of the activities of various agencies is based on the manifestation of oversight criteria, relying on such guidelines as the selection of the governing authority, the designation of management, the ability to exert significant influence on operations, and the accountability for fiscal matters. The accountability for fiscal matters considers the possession of the budgetary authority, the responsibility for surplus or deficit, the controlling of fiscal management, and the revenue characteristics, whether a levy or a charge. Consideration is also given to the scope of public service. The scope of public service considers whether the activity is for the benefit of the reporting entity and/or its residents and is within the geographic boundaries of the reporting entity and generally available to its citizens.

Based upon the application of these criteria, the financial statements of the Village of Fowler contain all the funds controlled by the Village Council.

2. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS

The fund financial statements present the Village's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the Village are:

- a. The General Fund is the Village's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.
- b. The Major Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's major streets.
- c. The Local Street Fund is used to account for the financial resources that are used for repairs and maintenance of the Village's local streets.
- d. The Sewer System Fund accounts for resources generated by providing sewer services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- e. The Water System Fund accounts for resources generated by providing water services to residents of the Village; the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

3. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Accounting - continued

All proprietary funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The Village has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the Village's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Budgets and Budgetary Accounting

The General, Major Street, and Local Street Funds' budgets shown as required supplementary information to the financial statements were prepared on a basis consistent with the modified accrual basis used to reflect actual results. The Village employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Prior to January 1, the Village Council prepares the proposed operating budgets for the fiscal year commencing January 1. The operating budget includes proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. Prior to January 1, the budgets are legally adopted with passage by Council vote.
- d. The budgets are legally adopted at the total expenditure level.
- e. After the budgets are adopted, all transfers of budgeted amounts between accounts within a fund or activity or any revisions that alter the total expenditures of a fund or activity must be approved by the Village Council.
- f. The Village does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at December 31, 2007 are not carried forward to the following fiscal year.
- g. Budgeted amounts are reported as originally adopted or as amended by the Village Council during the year. Individual amendments were appropriately approved by the Village Council in accordance with required procedures.

6. Cash, Cash Equivalents, and Investments

Cash and cash equivalents consist of various money market checking accounts, MBIA savings accounts, and cash on hand.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Cash, Cash Equivalents, and Investments - continued

Investments include certificates of deposit with an original maturity of greater than 90 days from the date of purchase. All investments are stated at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. All certificates of deposit held by the Village at year-end are classified as investments.

7. Property Tax

The Village of Fowler bills and collects its own property taxes. The Village's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph.

Property taxes are levied by the Village of Fowler on July 1 and are payable without penalty through September 1. All real property taxes not paid to the Village by September 15 are turned over to the Clinton County Treasurer for collection. The Clinton County Treasurer remits payments to the Village on any delinquent real property taxes. Delinquent personal property taxes are retained by the Village for subsequent collection. Collections and remittances of all taxes are accounted for in the General Fund. Village property tax revenues are recognized as revenues in the fiscal year levied.

The Village is permitted to levy taxes up to 15 mills (\$15 per \$1,000 of assessed valuation) for general governmental services. For the year ended December 31, 2007, the Village levied 8.25 mills for general governmental services. The taxable value for the 2007 levy for the property within the Village was \$31,409,153.

8. Interfund Transactions

During the course of normal operations, the Village has numerous transactions between funds, including expenditures and transfers of resources to provide services and construct assets. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The General Fund records charges for equipment rental to various Village departments and funds as revenue. All Village funds record these payments as operating expenditures/expenses.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$2,500 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Sewer and Water systems and improvements	10 - 40 years
Equipment and machinery	7 - 40 years
Buildings	20 years
Vehicles	10 - 20 years

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE A: DESCRIPTION OF VILLAGE AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Long-term Liabilities

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

11. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the financial statements unduly complex and difficult to read.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

In accordance with Michigan Compiled Laws, the Village is authorized to invest in the following investment vehicles:

1. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the Federal Deposit Insurance Corporation (FDIC) or a savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (FSLIC) or a credit union which is insured by the National Credit Union Administration, or a State or Federally chartered savings and loan association, savings, bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of the Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow for collateralization of government deposits if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities, issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Village of Fowler

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Deposits

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the Village's deposits may not be returned to it. As of December 31, 2007, the carrying amounts of the Village's deposits were \$555,966 and the bank balance was \$547,292, of which \$200,000 was covered by federal depository insurance. The balance of \$347,292 was uninsured and uncollateralized. The primary government had \$75 of imprest cash on hand.

Due to significantly higher cash flow at certain periods during the year, the amount the Village held in cash increased significantly. As a result, the amount of uninsured and uncollateralized cash was substantially higher at these peak periods than at year-end.

Investments

As of December 31, 2007, the Village had the following investments:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>	<u>Weighted Average Maturity</u>
Uncategorized pooled investment funds			
MBIA - Michigan Class	<u>\$ 795,720</u>	<u>\$ 795,720</u>	140 days

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). The Village's investments in MBIA - Michigan Class are not rated.

Interest Rate Risk

The Village will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by designating its investment portfolio with the objective of obtaining a rate of return through the economic cycles considering risk constraints and cash flow characteristics.

Concentration of Credit Risk

The Village will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the Township's investment in a single issuer, by diversifying the investment portfolio by security type to ensure that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Custodial Credit Risk

The Village will minimize custodial credit risk, which is the risk that in the event of the failure of the counterparty, the Village will not be able to recover the value of its investments of collateral securities that are in possession of an outside party by diversifying its investments by institution to ensure that potential losses on individual securities do not exceed the income generated by the remainder of the portfolio.

Village of Fowler

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2007:

Cash and cash equivalents	\$ 1,223,061
Investments	<u>128,700</u>
	<u>\$ 1,351,761</u>

NOTE C: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity are classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to Local Street Fund from:	
General Fund	\$ 25,000
Major Street Fund	<u>12,500</u>
	<u>\$ 37,500</u>
Transfers to nonmajor governmental fund from:	
General Fund	<u>\$ 25,000</u>

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2007 was as follows:

Primary Government

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007
Governmental activities				
Capital assets not being depreciated				
Land	\$ 63,790	\$ -	\$ -	\$ 63,790
Capital assets being depreciated				
Buildings	105,000	-	-	105,000
Infrastructure	25,729	21,426	-	47,155
Equipment and furniture	<u>322,121</u>	<u>12,456</u>	<u>-</u>	<u>334,577</u>
Subtotal	452,850	33,882	-0-	486,732
Accumulated depreciation				
Buildings	(53,375)	(5,250)	-	(58,625)
Infrastructure	(643)	(2,358)	-	(3,001)
Equipment and furniture	<u>(149,195)</u>	<u>(24,623)</u>	<u>-</u>	<u>(173,818)</u>
Subtotal	<u>(203,213)</u>	<u>(32,231)</u>	<u>-0-</u>	<u>(235,444)</u>
Net capital assets being depreciated	<u>249,637</u>	<u>1,651</u>	<u>-0-</u>	<u>251,288</u>
Total net capital assets	<u>\$ 313,427</u>	<u>\$ 1,651</u>	<u>\$ -0-</u>	<u>\$ 315,078</u>

Village of Fowler

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE D: CAPITAL ASSETS - CONTINUED

Primary Government - continued

Depreciation expense was charged to the following governmental activities:

General government	\$ 23,638
Public safety	100
Public works	7,993
Recreation and cultural	<u>500</u>
Total depreciation expense	<u>\$ 32,231</u>

	Balance <u>Jan. 1, 2007</u>	<u>Additions</u>	<u>Deletions</u>	Balance <u>Dec. 31, 2007</u>
Business-type activities				
Capital assets not being depreciated				
Land	\$ 38,043	\$ -	\$ -	\$ 38,043
Construction in progress	<u>79,322</u>	<u>637,700</u>	<u>-</u>	<u>717,022</u>
Subtotal	117,365	637,700	-0-	755,065
Capital assets being depreciated				
Buildings	17,967	-	-	17,967
Water Plant	1,193,708	-	-	1,193,708
Lagoon	427,419	-	-	427,419
Improvements	475,183	-	-	475,183
Machinery and equipment	<u>28,493</u>	<u>-</u>	<u>-</u>	<u>28,493</u>
Subtotal	2,142,770	-0-	-0-	2,142,770
Less accumulated depreciation				
Buildings	(17,967)	-	-	(17,967)
Water Plant	(775,918)	(29,843)	-	(805,761)
Lagoon	(276,312)	(14,241)	-	(290,553)
Improvements	(241,716)	(11,436)	-	(253,152)
Machinery and equipment	<u>(25,243)</u>	<u>(806)</u>	<u>-</u>	<u>(26,049)</u>
Subtotal	<u>(1,337,156)</u>	<u>(56,326)</u>	<u>-0-</u>	<u>(1,393,482)</u>
Net capital assets being depreciated	<u>805,614</u>	<u>(56,326)</u>	<u>-0-</u>	<u>749,288</u>
Total net capital assets	<u>\$ 922,979</u>	<u>\$ 581,374</u>	<u>\$ -0-</u>	<u>\$ 1,504,353</u>

Village of Fowler

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the Village for the year ended December 31, 2007:

	Balance Jan. 1, 2007	Additions	Deletions	Balance Dec. 31, 2007	Amount Due Within One Year
Business-type Activities					
Sewer System Fund					
Sanitary Sewer Bonds	\$ 15,000	\$ -	\$ 15,000	\$ -0-	\$ -0-
Water Fund					
1997 Refunding Bonds	100,000	-	20,000	80,000	30,000
2007 Capital Improvement Bonds	-	758,017	-	758,017	30,000
	<u>\$ 115,000</u>	<u>\$ 758,017</u>	<u>\$ 35,000</u>	<u>\$ 838,017</u>	<u>\$ 60,000</u>

In 1997 the Village entered into an agreement with the Michigan Municipal Bond Authority to refund the 1989 Water Supply System Revenue Bonds and replace them with the 1997C Refunding Bonds. The refunding of the bonds did not change the Village's principal amounts due or the timing or duration of the payments but provided a better interest rate on the outstanding bonds. This resulted in a reduction in future interest payments by \$36,470.

Significant details regarding outstanding long-term debt (including current portion) are presented below:

Water Supply System Refunding Bonds

\$240,000 1997C Water Supply System Refunding Bonds dated October 30, 1997, due in annual installments ranging from \$25,000 to \$30,000 through November 1, 2010, with interest ranging from 3.7 to 5.1 percent, payable annually. \$ 80,000

2007 Capital Improvement Bonds

\$805,000 2007 Capital Improvement Bonds (only \$758,017 drawn to date) dated June 28, 2007, due in annual installments ranging from \$30,000 to \$50,000 through October 1, 2027, with interest of 2.125 percent, payable annually. 758,017
\$ 838,017

The annual requirements to pay the debt principal and interest outstanding for the bonds are as follows:

	<u>1997 Refunding Bonds</u>	
<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2008	\$ 30,000	\$ 3,915
2009	25,000	2,475
2010	<u>25,000</u>	<u>1,250</u>
	<u>\$ 80,000</u>	<u>\$ 7,640</u>

The \$758,017 related to the 2007 Capital Improvement Bonds is not included in the above schedule because the bonds have not been fully drawn down and as a result the maturity schedule was not finalized as of December 31, 2007.

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE F: RETIREMENT PLAN

Plan Description

The Village participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible (i.e., full-time) employees of the Village. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

Covered employees can contribute between 0% to 10% of their annual salary to the retirement system. Employees hired prior to 1985 may be allowed to contribute 3% of the first \$4,200 of annual compensation and 5% of portions over \$4,200. The Village is required to contribute the remaining amounts necessary to fund the system.

Annual Pension Cost

For year ended December 31, 2007 the Village's annual pension cost of \$7,496 for the plan was equal to the Village's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period.

Three (3) year trend information

	Year Ended December 31,		
	<u>2004</u>	<u>2005</u>	<u>2006</u>
Actuarial value of assets	\$ 235,337	\$ 232,511	\$ 235,473
Actuarial accrued liability (AAL) (entry age)	255,497	262,046	270,678
Unfunded (overfunded) AAL	20,160	29,535	35,205
Funded ratio	92 %	89 %	87 %
Covered payroll	\$ 78,620	\$ 80,162	\$ 83,606
UAAL as a percentage of covered payroll	26 %	37 %	42 %

	Year Ended December 31,		
	<u>2005</u>	<u>2006</u>	<u>2007</u>
Annual pension cost	\$ 5,203	\$ 6,948	\$ 7,496
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

Village of Fowler

NOTES TO FINANCIAL STATEMENTS

December 31, 2007

NOTE G: RISK MANAGEMENT

The Village participates in a pool, the Michigan Municipal Liability and Property Pool, with other municipalities for various risks of loss including employer's liability, employee benefit liability, public official's liability, and auto, property and casualty losses. The pool is organized under Public Act 138 of 1982, as amended as a governmental group property and casualty self insurance pool. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

The Village also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. In the event the pool's claims and expenses for a policy year exceed the total normal annual premiums for said years, all members of the specific pool's policy year may be subject to special assessment to make up the deficiency. The Village has not been informed of any special assessments being required.

NOTE H: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2007:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for streets	\$ <u>225,533</u>

NOTE I: FUND EQUITY DESIGNATIONS

Designated fund balance indicates that portion of the fund balance which the Village has set aside for specific purposes.

The following are the fund balance designations as of December 31, 2007:

Major Street Fund	
Designated for subsequent year's expenditures	\$ <u>2,750</u>
Local Street Fund	
Designated for subsequent year's expenditures	\$ <u>1,500</u>

REQUIRED SUPPLEMENTARY INFORMATION

Village of Fowler

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Taxes	\$ 225,000	\$ 259,000	\$ 259,340	\$ 340
Licenses and permits	500	500	-	(500)
Intergovernmental	91,200	91,200	92,757	1,557
Charges for services	43,100	34,100	51,531	17,431
Interest and rents	19,100	19,100	19,471	371
Other				
Contributions	-	29,000	12,017	(16,983)
Special assessments	15,000	9,000	10,882	1,882
Other	1,300	1,300	707	(593)
TOTAL REVENUES	395,200	443,200	446,705	3,505
EXPENDITURES				
Current				
General government	89,965	128,665	119,063	9,602
Public safety	15,200	13,200	10,690	2,510
Public works	199,420	197,520	198,464	(944)
Health and welfare	5,500	3,500	2,985	515
Community and economic development	22,565	7,515	5,181	2,334
Recreation and cultural	10,500	7,500	6,824	676
Capital outlay	20,500	15,500	13,991	1,509
TOTAL EXPENDITURES	363,650	373,400	357,198	16,202
EXCESS OF REVENUES OVER EXPENDITURES	31,550	69,800	89,507	19,707
OTHER FINANCING (USES)				
Transfers out	(50,000)	(50,000)	(50,000)	-0-
NET CHANGE IN FUND BALANCE	(18,450)	19,800	39,507	19,707
Fund balance, beginning of year	558,799	558,799	558,799	-0-
Fund balance, end of year	\$ 540,349	\$ 578,599	\$ 598,306	\$ 19,707

Village of Fowler

Major Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Intergovernmental - State				
Gas and weight tax	\$ 48,000	\$ 48,000	\$ 47,430	\$ (570)
Metro act	3,400	3,400	3,289	(111)
Interest	500	3,500	3,770	270
TOTAL REVENUES	51,900	54,900	54,489	(411)
EXPENDITURES				
Public works	42,250	11,750	5,229	6,521
EXCESS OF REVENUES OVER EXPENDITURES	9,650	43,150	49,260	6,110
OTHER FINANCING (USES)				
Transfers out	(12,500)	(12,500)	(12,500)	-0-
NET CHANGE IN FUND BALANCE	(2,850)	30,650	36,760	6,110
Fund balance, beginning of year	94,956	94,956	94,956	-0-
Fund balance, end of year	<u>\$ 92,106</u>	<u>\$ 125,606</u>	<u>\$ 131,716</u>	<u>\$ 6,110</u>

Village of Fowler

Local Street Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2007

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental - State				
Gas and weight tax	\$ 25,000	\$ 25,000	\$ 24,229	\$ (771)
Interest	150	2,250	2,280	30
TOTAL REVENUES	25,150	27,250	26,509	(741)
EXPENDITURES				
Public works	45,700	48,800	42,617	6,183
EXCESS OF REVENUES (UNDER) EXPENDITURES	(20,550)	(21,550)	(16,108)	5,442
OTHER FINANCING SOURCES				
Transfers in	37,500	37,500	37,500	-0-
NET CHANGE IN FUND BALANCE	16,950	15,950	21,392	5,442
Fund balance, beginning of year	72,425	72,425	72,425	-0-
Fund balance, end of year	<u>\$ 89,375</u>	<u>\$ 88,375</u>	<u>\$ 93,817</u>	<u>\$ 5,442</u>

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable President and
Members of the Village Council
Village of Fowler, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Village of Fowler, as of and for the year ended December 31, 2007, which collectively comprise the Village of Fowler's basic financial statements and have issued our report thereon dated April 4, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Fowler's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Village of Fowler's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Village of Fowler's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the Village of Fowler's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the Village of Fowler's financial statements that is more than inconsequential will not be prevented or detected by the Village of Fowler's internal control. We consider the deficiencies described below to be significant deficiencies in internal control over financial reporting.

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS

Condition: Material journal entries were proposed by the auditors to properly account for receivables, payables, depreciation expense and reporting of long-term debt. These misstatements were not detected by the Village's internal control over financial reporting.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows, including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. The auditor cannot be a part of internal controls.

2007-1 MATERIAL JOURNAL ENTRIES PROPOSED BY AUDITORS - CONTINUED

Effect: Through the identification of material journal entries that were not otherwise identified by management, the auditors are effectively part of the Village's internal controls.

Recommendation: We recommend that the Village take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

Corrective Action Response: The Village will take steps to ensure that material journal entries are not necessary at the time future audit analysis is performed.

2007-2 PREPARATION OF FINANCIAL STATEMENTS

Condition: It has historically been common for many governments to rely on the independent auditors to assist in the preparation of the government-wide and fund financial statements, as well as the related notes to the financial statements, as part of its external financial reporting process. As a result, a government's ability to prepare financial statements in accordance with GAAP has typically been based, in part, on its reliance on the independent auditors. This issue was noted and reported in our audit comments last year.

Criteria: Statement on Auditing Standards No. 112 (SAS 112), *Communicating Internal Control Related Matters Identified in an Audit*, emphasizes that management is responsible for establishing, maintaining, and monitoring internal controls, and for the fair presentation in the financial statements of financial position, results of operations, and cash flows (when applicable), including the notes to financial statements, in conformity with U.S. generally accepted accounting principles. Responsibility for the financial statements of the Village rests with the Village's management. The preparation of financial statements in accordance with GAAP requires internal controls over both (1) recording, processing, and summarizing accounting data (i.e., maintaining internal accounting records), and (2) reporting government-wide and fund financial statements, including the related note disclosures (i.e., external financial reporting). The auditor cannot be a part of internal controls.

Effect: As a result of this condition, the employees and/or management may not possess the qualifications necessary to prepare the Village's annual financial statements and notes to the financial statements in accordance with GAAP. The Village relies, in part, on the independent auditors for assistance with the preparation of annual financial statements and related notes to the financial statements in accordance with GAAP.

Recommendation: We recommend the Village consider obtaining proper training for the appropriate members of the Village's administration to assure that they are able to fully understand the requirements of preparing GAAP financial statements. This understanding is essential for the Village's administration to be able to accept responsibility for the amounts and disclosures included in the Village's financial statements.

Corrective Action Response: The Village will consider obtaining proper training for appropriate members of the Village's administration to assure a full understanding of the requirements of preparing GAAP financial statements.

2007-3 FRAUD RISK MANAGEMENT PROGRAM

Condition: During the course of our audit, we noted that the Village has not developed or implemented a fraud risk management program.

Criteria: Management is responsible for the detection and prevention of fraud, misappropriations, and other inappropriate conduct. Fraud is defined as the intentional, false representation or concealment of a material fact for the purpose of inducing another to act upon it to his or her injury. Each member of the management team should be familiar with the types of improprieties that might occur within his or her area of responsibility, and be alert for any indication of irregularity.

Effect: Due to the Village not developing a fraud risk assessment and monitoring program it is unable to assess the Village's vulnerabilities to fraudulent activity and whether any of those exposures could result in material misstatement of the financial statements.

2007-3 FRAUD RISK MANAGEMENT PROGRAM - CONTINUED

Recommendation: We recommend that the Village develop and formally implement a fraud risk management program that is appropriate to the size and complexity of the organization. Such a fraud risk management program may involve actively searching for fraudulent transactions through the use of techniques such as data mining, but should also include informing management and employees as to the nature of fraud and actions expected to be taken if fraud is suspected. This would include publishing a definition of fraud, a statement that fraud will not be tolerated within the organization, and instructions for reporting fraud within the chain of command.

Corrective Action Response: The Village will develop and formally implement a fraud risk management program that is appropriate to the size of the organization.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Village of Fowler's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that the significant deficiency described above as 2007-1 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Village of Fowler's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted a certain matter that we reported to management of the Village of Fowler in a separate letter dated May 19, 2008.

This report is intended solely for the information and use of management and members of the Village Council of the Village of Fowler, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY P.C.
Certified Public Accountants

April 4, 2008

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA



ABRAHAM & GAFFNEY, P.C.

Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

MANAGEMENT LETTER

To the Honorable President and
Members of the Village Council
Village of Fowler, Michigan

As you know, we have recently completed our audit of the Village of Fowler, Michigan for the year ended December 31, 2007. In connection with the audit, we offer the following comment for your consideration.

Transfers between Major and Local Street Funds

Public Act 9 of 2004 allows an entity to transfer surplus Major Street system funds for the preservation of the Local Street system. This authorization will end December 31, 2008. Effective January 1, 2009, Major Street funds may not be transferred to Local Streets except to the extent matched by local revenues expended on the Major Street system of State Trunkline highways.

We suggest the Village consider this when they plan for the budget process for 2009.

This report is intended solely for the information of management and the President and Members of the Village Council of the Village of Fowler and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

April 4, 2008